

**OVERSIGHT BOARD TO THE FORMER
COMMUNITY REDEVELOPMENT AGENCY
OF THE CITY OF COMPTON
STAFF REPORT**

DATE: FEBRUARY 27, 2013

TO: THE HONORABLE CHAIR AND BOARD MEMBERS

FROM: EXECUTIVE DIRECTOR

SUBJECT: UPDATE ON DEPARTMENT OF FINANCE (DOF) COMMUNICATIONS

BACKGROUND:

At the direction of the Oversight Board, Successor Agency staff is to provide a monthly report on communication between the Successor Agency and the State Department of Finance (DOF). To that extent, this is the Successor Agency's monthly report to the board regarding communication with the DOF.

DISCUSSION:

Since the last Oversight Board meeting on January 15, 2013, the Successor Agency staff has had the following correspondence with the DOF:

- 1.) January 15, 2013 – Submission of DDR –Other Funds
- 2.) February 8, 2013 – Received Letter of Determination on ROPS III
- 3.) January 22, 2013 to February 26, 2013 – providing supporting documentation to DOF on the Successor Agency's DDR – Other Funds

RECCOMENDATION:

Staff recommends the Board receive and file this report.

**G. HAROLD DUFFEY
EXECUTIVE DIRECTOR**

GHD: KSB: MLA

Attachments:

- 1.) DOF Letter of Letter of Determination on ROPS III (February 8, 2013)



February 8, 2013

Mr. Kofi Sefa-Boakye, Director
City of Compton
205 South Willowbrook Avenue
Compton, CA 90220

Dear Mr. Sefa-Boakye:

Subject: Revised Recognized Obligation Payment Schedule

This letter supersedes Finance's Recognized Obligation Payment Schedule (ROPS) letter dated December 3, 2012. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Compton Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS III) to the California Department of Finance (Finance) on August 30, 2012 for the period of January 1 through June 30, 2013. Finance issued its determination related to those enforceable obligations on December 3, 2012. Subsequently, the Agency requested a Meet and Confer session on one or more of the items denied by Finance. The Meet and Confer session was held on Monday, December 31, 2012.

Based on a review of additional information and documentation provided to Finance during the Meet and Confer process, Finance has completed its review of the items being disputed.

- Item Nos. 37 through 40, 63, 64, 107, 111, 118, 121, 125, 126, 128, 129, 132, 133, 141, 145, and 152 through 154 – Projects totaling \$2.1 million. Finance no longer objects to Items 37, 38, 63, 64, 107, 121, 125, 126, 132, and 154 and reclassifies them as administrative costs; however, Finance continues to deny Items 39, 40, 111, 118, 128, 129, 133, 141, 145, 152, and 153. Finance originally denied the items as HSC section 34163 (b) prohibits a redevelopment agency (RDA) from entering into a contract with any entity after June 27, 2011. It was our understanding that contracts for these line items were executed after this date.

The Agency contends the items are enforceable obligations because they are components of the Tax Allocation Bonds issued by the former RDA in June 2010. However, for Items 39, 40, 111, 118, 128, 129, 133, 141, 145, 152, and 153 contracts were either not executed, executed after June 27, 2011, or were expired. Therefore, the items are not enforceable obligations. However, to the extent items are to be funded with bond proceeds, successor agencies will be eligible to expend bonds issued prior to January 1, 2011, once a finding of completion is received from Finance per HSC section 34191.4 (c). Those obligations should be reported on a subsequent ROPS.

Based on additional information provided for Items 37, 38, 63, 64, 107, 121, 125, 126, 132, and 154, Finance reclassifies the items as administrative costs.

- Item Nos. 48, 49, 142, and 151 – Affordable Housing Monitoring and Administrative Costs totaling \$6 million. The Agency requested it be authorized to use Low and Moderate Income Housing Funds (LMIHF) for these obligations. Finance no longer objects to Item 142 and reclassifies it as an administrative cost; however, Finance continues to deny Items 48, 49, and 151. Finance denied the items since the City of Compton (City) assumed the housing functions, the administrative costs associated with these functions are the responsibility of the housing successor. Upon the transfer of the former RDA's housing functions to the new housing entity, HSC section 34176 requires that "all rights, powers, duties, obligations and housing assets...shall be transferred" to the new housing entity. This transfer of "duties and obligations" necessarily includes the transfer of administrative costs and monitoring obligations; to the extent any continue to be applicable. To conclude that such costs should be on-going enforceable obligations of the successor agency could require a transfer of tax increment for life – directly contrary to the wind down directive in ABx1-26/AB1484. Therefore, Items 48, 49, and 151 are not enforceable obligations and not eligible for funding.

For Item 142, the contract was executed prior to June 27, 2011. However, the services to be provided are administrative in nature; therefore, Item 142 has been reclassified as an administrative cost.

- Item Nos. 46, 47, 51, 53, 54, 56 through 60, 65, 67, 68, and 108 – Projects totaling \$66.2 million. Finance no longer objects to Item 60 and 108; however, Finance continues to deny the remaining items. Finance denied the items as it is our understanding that contracts are not in place for these line items. HSC section 34163 (b) prohibits a RDA from entering into a contract with any entity after June 27, 2011. The Agency contends the items are enforceable obligations because they are components of the Tax Allocation Bonds issued by the former RDA in June 2010.

For Item 60, the Agency provided an agreement dated March 9, 2011, between the former RDA and a third party. Therefore, Item 60 is an enforceable obligation and eligible for bond funding.

For Item 108, the Agency provided an agreement executed on January 18, 2010, between the former RDA and a third party. Therefore, Item 108 is an enforceable obligation and eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding. However, the county auditor controller has already made the January through June 2013 RPTTF distribution and this item was not funded. The Agency may place this item on subsequent ROPS for RPTTF funding.

However, the contract provided for Items 57 and 58 was between the City and a third party, not the former RDA, and no contracts were in place prior to June 27, 2011, for Items 51, 53, 54, 56, 59, 65, 67, and 68. Therefore, the items are not enforceable obligations. However, to the extent items are to be funded with bond proceeds, successor agencies will be eligible to expend bonds issued prior to January 1, 2011, once a finding of completion is received from Finance per HSC section 34191.4 (c). Those obligations should be reported on a subsequent ROPS.

For Items 46 and 47, upon the transfer of the former RDA's housing functions to the new housing entity, HSC section 34176 requires that "all rights, powers, duties, obligations and housing assets...shall be transferred" to the new housing entity. This transfer of

"duties and obligations" necessarily includes the transfer of housing obligations. To conclude that such costs should be on-going enforceable obligations of the successor agency could require a transfer of tax increment for life – directly contrary to the wind down directive in ABx1-26/AB1484. Therefore, Items 46 and 47 are not enforceable obligations and are not eligible for funding.

- Claimed administrative costs exceed the allowance by \$1,117,213. HSC section 34171 (b) limits the fiscal year 2012-13 administrative expenses to three percent of property tax allocated to the Agency or \$250,000, whichever is greater. As a result, the Agency is eligible for \$420,921 for administrative expenses. The Los Angeles Auditor Controller's Office did not distribute administrative costs during the July through December 2012 period, leaving \$420,921 available. Although \$298,100 is claimed for administrative cost, Items Nos. 8, 9, 15, 16, 17, 20, 35, 37, 38, 39, 62, 63, 64, 71, 72, 76, 80, 98, 107, 112, 120, 121, 122, 124, 125, 126, 132, 143, 144, 152, 154, 155, and 156 totaling \$1,240,034 are considered administrative expenses and should be counted toward the cap. Therefore, \$1,117,213 of excess administrative cost is not allowed.

Finance notes that the Agency agreed that Items 8, 9, 15, 16, 17, 20, 62, 71, 72, 76, 80, 98, 122, 124, 143, 144, 154, 155, and 156 should be reclassified as administrative costs.

The Agency requested that Items 10 through 14, 18, and 19 be approved as enforceable obligations for payment from the LMIHF. Finance originally reclassified the items as administrative costs; however, the costs are related to housing successor agency staff. Since the City assumed the housing functions, the administrative costs associated with these functions are the responsibility of the housing successor. Upon the transfer of the former RDA's housing functions to the new housing entity, HSC section 34176 requires that "all rights, powers, duties, obligations and housing assets...shall be transferred" to the new housing entity. This transfer of "duties and obligations" necessarily includes the transfer of administrative costs; to the extent any continue to be applicable. To conclude that such costs should be on-going enforceable obligations of the successor agency could require a transfer of tax increment for life – directly contrary to the wind down directive in ABx1-26/AB1484. Therefore, Items 10 through 14, 18, and 19 are no longer reclassified as administrative costs and are not enforceable obligations and not eligible for LMIHF funding.

The Agency contends that Items 35, 112, and 120 are enforceable obligations because they are costs related to specific projects. However, the items do not fall into any of the following categories that are specifically excluded from the administrative cap as defined by HSC section 34171 (b):

- Any litigation expenses related to assets or obligations.
- Settlements and judgments.
- The costs of maintaining assets prior to disposition.
- Employee costs associated with work on specific project implementation activities, including, but not limited to, construction inspection, project management, or actual construction, shall be considered project-specific costs.

Therefore, Finance continues to reclassify Items 35, 112, and 120 as administrative costs.

In addition, per Finance's ROPS letter dated December 3, 2012, the following item not disputed by the Agency continues to be denied:

- Item No. 148 – Pass-through payment in the amount of \$1.6 million. Per HSC section 34183 (a) (1), the county auditor-controller will make the required pass-through payments starting with the July through December 2012 ROPS. Therefore, this item is not an enforceable obligation and not eligible for funding on this ROPS.

The Agency's maximum approved RPTTF distribution for the reporting period is: \$7,601,250 as summarized below:

Approved RPTTF Distribution Amount	
For the period of January through June 2013	
Total RPTTF funding requested for obligations	\$ 10,035,206
Less: Six-month total for item(s) denied or reclassified as administrative cost	
Item 8*	130,000
Item 10	39,000
Item 11	39,000
Item 12	182,000
Item 13	130,000
Item 14	130,000
Item 15*	130,000
Item 16*	39,000
Item 17*	39,000
Item 18	39,000
Item 19	130,000
Item 20*	65,000
Item 35*	60,000
Item 37*	8,000
Item 38*	12,000
Item 47	70,000
Item 48	75,000
Item 49	75,000
Item 57	600,000
Item 62*	25,000
Item 63*	30,000
Item 64*	65,000
Item 71*	75,000
Item 72*	97,517
Item 76*	35,000
Item 80*	30,000
Item 98*	85,517
Item 107*	5,000
Item 108**	20,000
Item 111	4,843
Item 112*	2,000
Item 118	8,000

Item 120*	25,000
Item 122*	40,000
Item 124*	150,000
Item 126*	5,000
Item 129	15,000
Item 132*	25,000
Item 141	50,000
Item 143*	1,000
Item 144*	1,000
Item 153	8,000
Item 154*	5,000
Item 155*	40,000
Item 156*	15,000
Total approved RPTTF for enforceable obligations	\$ 7,180,329
Plus: Allowable RPTTF distribution for administrative cost for ROPS III	420,921
Total RPTTF approved:	\$ 7,601,250

*Reclassified as administrative cost

** Item is an enforceable obligation; however, January through June 2013 RPTTF distribution was already made.

Administrative Cost Calculation	
Total RPTTF for the period July through December 2012	\$ 6,850,376
Total RPTTF for the period January through June 2013	7,180,329
Total RPTTF for fiscal year 2012-13:	\$ 14,030,705
Allowable administrative cost for fiscal year 2012-13 (Greater of 3% or \$250,000)	420,921
Administrative allowance for the period of July through December 2012	0
Allowable RPTTF distribution for administrative cost for ROPS III:	\$ 420,921

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS III form the estimated obligations and actual payments associated with the January through June 2012 period. The amount of RPTTF approved in the above table will be adjusted by the county auditor-controller to account for differences between actual payments and past estimated obligations. Additionally, these estimates and accounts are subject to audit by the county auditor-controller and the State Controller.

The amount available from the RPTTF is the same as the property tax increment that was available prior to enactment of ABx1 26 and AB 1484. This amount is not and never was an unlimited funding source. Therefore, as a practical matter, the ability to fund the items on the ROPS with property tax is limited to the amount of funding available to the successor agency in the RPTTF.

Except for items disallowed as noted above, Finance is not objecting to the remaining items listed in your ROPS III. Obligations deemed not to be enforceable shall be removed from your ROPS. This is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2013. Finance's determination is effective for this time period only and should not be conclusively relied upon for future periods. All items listed on a future ROPS are subject to a subsequent review and may be denied even if it was or was not questioned on this ROPS or a preceding ROPS.

Mr. Sefa-Boakye
February 8, 2013
Page 6

Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Danielle Brandon, Analyst, at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Mr. Michael Antwine, Deputy Director, City of Compton
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller
California State Controller's Office